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Borzutzky, Silvia

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You Win Some, You Lose Some: Pension Reform in Bachelet's First and Second Administrations

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**Silvia Borzutzky**

Abstract

This article analyses and compares President Bachelet's successful efforts to reform the Chilean pension system in 2008 and her failure to achieve the same objective in 2017. The article addresses the impact of electoral promises, policy legacies, policy ideology, presidential power, the role of the private sector, and the role that the government coalitions had in the process of pension reform during the Bachelet administrations. We argue that the 2008 reform was possible because of Bachelet's personal commitment to reform and the presence of a stable governing coalition that had the will and capacity to legislate. In the second administration, although the policy legacies and ideology had remained the same, the reform did not materialise due to intense conflict within the administration and within the government coalition, as well as conflict between the administration and the coalition. These conflicts, in turn, generated a vicious cycle responsible for Bachelet's declining popularity, limited political capital, and reduced support for reform. A stagnant economy further undermined these efforts. In brief, this article argues that when assessing success and failure in pension policy reform it is important to analyse not only policy legacies and political ideology but also the strength of the executive, the cohesion of the governing coalition, and the country's economic performance.

Keywords

Chile, Pensions, Bachelet administration, pension reform

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Heinz College of Information Systems and Public Policy, Carnegie Mellon University, Pittsburgh, PA, USA

Corresponding author:

Silvia Borzutzky, Heinz College of Information Systems and Public Policy, Carnegie Mellon University, 5000 Forbes Ave, Pittsburgh, PA 15213, USA.

Email: sb6n@andrew.cmu.edu



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Introduction

This article analyses and compares Michelle Bachelet's successful efforts to reform the Chilean pension system in 2008 and her failure to achieve the same objective in 2017. Inspired by a similar ideology, with similar policy legacies and facing equally powerful interest groups, Bachelet was able to obtain major pension reform during her first administration yet failed to achieve the same goal during her second administration. Why did this occur? Why was Bachelet able to achieve reform in one administration while failing to do so in another? This article will answer this question by analysing the following: the role of the executive branch, the stability and effectiveness of the governing coalition, the overall economic performance of the country, and the role of the pension plan administrators.

The article begins by exploring approaches to social security and pension policy. This section reviews some of the major historical and contemporary approaches used to analyse social policy reform in Latin America including the pioneer works of Carmelo Mesa-Lago and James M. Malloy, as well as current approaches elaborated by Rosanna Castiglione, Christina Ewig, Candelaria Garay, Stephen Kay, Juliana Martinez Franzoni, Jennifer Pribble, and Diego Sánchez Ancochea, among others.

The second section of the article provides a brief history of social security and pension policies in Chile and the third section analyses Bachelet's approach to governance and the general characteristics of the first administration followed by a discussion of the nature of Chile's pension system and an assessment of the 2008 reform's impact. The fourth section analyses the nature of governance and some of the critical problems affecting the Bachelet's second administration. Lastly, the fifth section analyses why President Bachelet failed to enact pension reform despite having similar demands for reform, having made similar electoral promises, and having similar policy legacy and ideology.

Essentially, I argue that during her first administration, President Bachelet was able to carry out the 2008 pension reform because this was a priority for her and because of the presence of a stable governing coalition that had the will and capacity to turn into law some of the proposals made by the presidential commission. Thus, while the commission provided a platform to develop legislation, the Concertación coalition provided the legislative support required to enact the least controversial recommendations. In the process, Bachelet was able to accomplish some of her goals, satisfy some of her constituents' demand, keep the governing coalition together, and maintain a fairly large degree of popular support. Overall, during the first administration, presidential commissions and the ensuing reforms were at the centre of a virtuous cycle that generated some reforms, satisfied some of the most pressing demands, and generated a large degree of public support for Bachelet. Stable economic management provided the required financial support. In the second administration, although the policy legacies and ideology had remained basically the same and Bachelet also resorted to the formation of commissions, the outcome was quite different. We believe that in this case the failure to achieve pension reform was due to the intense conflict within the administration and within the government coalition, as well as conflict between the administration and the

coalition. A stagnant economy and the decision of the president to prioritise other reforms undermined these attempts even further. Thus, the chaos and conflict within the coalition and within the administration generated a vicious cycle responsible for Bachelet's declining popularity, limited political capital, and reduced support for reforms.

The conclusion addresses the impact of electoral promises, policy legacies, policy ideology, presidential power, the role of the private sector, and the role that the government coalitions had in the process of pension reform during the Bachelet administrations.

Explaining the Evolution of Social Security and Pension Reform

Multiple theoretical frameworks explain the evolution of social policy across the world. As Kwong-Leung Tang notes, share a number of common factors including economic development, aged population [...] class conflicts, mobilisation of labour, modernisation, diffusion and an open economy (Tang, 1996: 377–393). In the case of Latin America, there is a rich analytic tradition that began with the work of Carmelo Mesa-Lago who focused on the role of pressure groups in the initiation of social security policies in the 1910s and 1920s in Argentina, Chile, and Uruguay (Mesa-Lago, 1978). James Malloy's analysis emphasised the role of the Brazilian state in the policy process in the 1930s, while I argued that in the case of Chile early policies result from state initiatives shaped by interest groups through their representatives in Congress. I also argue that state actors in conjunction with the private sector generated the Pinochet dictatorship's massive pension reform. This market-oriented reform favoured the private sector, and especially the Pension Fund Administrators (Borzutzky, 2002; Malloy, 1979).

At the end of the twentieth century and beginning of the twenty-first century, the development and expansion of pension policies is rooted in economic and political variables, as well as domestic and international factors. While some scholars focus on the impact of Globalisation, others emphasise political determinants, including the nature of the political systems, the structure and ideology of governing political parties, and the role of unions and interest groups. As Jennifer Pribble writes

[P]olicy legacies, electoral competition, and party character are all important factors that shape the nature and scope of social policy reform in contemporary Latin America. This is not to suggest that these are the only variables that influence reform [...]. other factors, including political institutional design, civil society mobilization, international actors, and economic performance, also contributed to the content of social policy reform in Argentina, Chile, Uruguay and Venezuela [...]. (Pribble, 2013: 173)

Pribble's analysis focuses on the role of leftist parties, a factor *also explored* by other analysts including Esping-Andersen and Evelyn Huber (Esping-Andersen, 1990; Huber and Stephens, 2001). In addition to party ideology, Pribble is concerned with the internal organisation of the parties and the connections between the party elites and the base. Her framework also highlights how previous policies or policy legacies "shape the

distribution of power and interests within the policy sector” (Pribble, 2013:13). Lastly, she includes the structure of electoral competitions or the ways in which policies are affected by political parties’ positions in a given election. The question of policy legacies has also been explored and developed further by other analysts. Rosanna Castiglione, for example, argues that

Social security change is the result of three combined explanatory factors. The ideological positions of policy-makers, the patterns of distribution of governmental authority, and the actions of non-state actors are critical in explaining social security change. The model theorizes that the ideological positions of the core policy-makers determine the direction and content of proposals for social security change, but cannot account for the ability of governments to achieve their policy goals. This ability, in turn, depends on the distribution of governmental authority and on the degree to which non-state actors opposing change can block reform attempts. (Castiglione, 2018: 189)

In their study of Costa Rica, Martínez Franzoni and Sánchez Ancochea argue that both the role of internal political elites and international actors play a central role in the legitimation of ideas and the mapping of possible options available at any given time. These actors and ideas, in turn, influence the specific characteristics of policies and programs (Martínez and Sánchez Ancochea, 2017: 132–147).

While Christina Ewig and Stephen Kay analyse postretrenchment policies in Chile, they argue that their conclusions apply also to Argentina, Bolivia, and Uruguay. Ewig and Kay conclude that to understand the limits and often the failure to achieve policy reform, it is critically important to include and understand the role of the private sector, and specifically of those business groups that are intimately affected by the “postretrenchment policies” or reforms carried out after the 1980’s privatisation.

In Postretrenchment politics, the strengthened position of private business interests, combined with political learning legacies and lock-in effects generated by reforms, results in incremental political change, despite of renewed efforts by left parties to address inequality. Global capital also plays an important contextual role, and may influence post-retrenchment politics. In post-retrenchment politics, newly reformed systems may achieve greater equity, but they do so in a fragmented form. (Ewig and Kay, 2011: 67)

Lastly, it is important to note the analytical and empirical contributions made by Candelaria Garay. Garay focuses on a more unconventional set of policies that have been largely ignored by other analysts: the policies toward “the outsiders,” those who are not part of the formal labour markets. In her study, Garay shows that incumbents expanded social policies in response to political competition and social mobilisation from below and that “the choice of policy models is related to the actors involved in the negotiations around policy design, their preferences and institutional power” (Garay, 2016: 301).

Because this article deals with a successful case of reform in 2008 and an unsuccessful attempt in 2017, the analysis will incorporate those variables that determined the outcome in these two different instances. Policy legacies, electoral competition, party ideology, executive determination, economic performance, and the strength and

legislative capacity of the governing coalitions explain the critical reform enacted in 2008. The limited nature of the reform and its inability to curtail the power of the pension fund administrators was determined by the private sector. On the other hand, Bachelet's failure to reform the pension system during her second administration can be explained through the changes in the structure and power of the governing coalition, the lack of executive direction, and the poor economic performance of the country at the time. In both administrations, domestic and international policy elites played a substantial role, and the private sector supported the growing involvement of the state to shore up pensions. This reduced opposition to the system and any policies that would curtail the economic rents of the pension fund administrators.

1924–2008: A Brief History of Social Security and Pension System

The origins of Chile's social security policies in the 1920s resulted from state actions represented by politicians such as President Arturo Alessandri (1920s) who saw social security and labour policies as a way of averting social upheaval at a time when the impact of the Russian and the Mexican revolutions was reverberating throughout Latin America (Borzutzky, 2002). However, *as Mesa-Lago demonstrates*, the role of interest groups, specifically those involved in critical economic activities, explains the disarticulated and fragmented growth of the system between the 1920s and 1960s. Thus, between 1924 and 1972, Chile's social security system grew in a haphazard form. By the early 1970s, up to 70 per cent of the population was covered through over 600 different funds, each with its own set of benefits and financial rules. The outcome was an expensive and unequal social security system that provided very substantial pensions to a few and inadequate pensions to many (Mesa-Lago, 1978). The expansion of democracy in the mid-twentieth century facilitated the growth of the system as interest groups exercised power through labour organisations and elected representatives, especially left-wing parties (Pribble, 2013).

However, this evolutionary policy process, in which electoral competition, political parties' ideologies, and policy legacies were essential elements, came to an abrupt end with the brutal 1973 military coup that destroyed both Chilean democracy and the existing social policies. What had taken about 50 years to build was quickly disassembled and the existing funds were replaced in 1981 with a market-oriented reform inspired by the economic ideas of Milton Friedman and the political ideas of James Buchanan (McLean, 2017). Undoubtedly, the old policy legacies were abandoned. The new ones resulted from a radically different ideological approach to policymaking and a new political system.

The Privately Administered Pension System, High Administrative Charges, Low and Unequal Pensions, High Fiscal Cost, and the Need for Reform

The fully funded (FF), defined-contribution (DC) pension system imposed by the Pinochet dictatorship in 1981 had many significant outcomes. Specifically, it transferred

the administration of the public funds to the private sector; it forced all new workers to join one of the privately owned pension funds; and it eliminated the employer's contribution to the system, creating a for-profit, compulsory, privately administered pension system. The reform eliminated the pre-existing publicly administered funds, or *cajas de prevision*, except for those held by the military and the police; and it eliminated the obligation of the employers to contribute to the retirement funds of their employees. Over thirty-seven years of data on the impact of privatisation support the following conclusions: it is expensive; it concentrates income in the Administradoras de Fondos de Pensiones (AFPs) or Pension Fund Managers; it generates huge profits for the AFPs; it is exclusionary; and it discriminates against women as well as part-time and independent workers (Hyde and Borzutzky, 2016). This section will discuss these five outcomes.

Since the 1981 reform, the pension funds have been managed by the AFPs, private entities created with the *sole* purpose of administering pension funds. The AFPs, in turn, charge a fee for the administration of the funds. As this was inspired by a "market philosophy," the AFPs' administrative charges remained unregulated to induce competition and supposedly and eventually reduce charges (Piñera, 1996; Rodríguez, 1999). However, after thirty-seven years, the administrative costs are still very high and have had a negative impact on the capacity of the affiliates to accumulate enough money for retirement. A World Bank report estimated that the AFPs retain a staggering amount of money: between a quarter and a third of workers' contributions in the form of commissions, insurance, and other administrative fees. Thus, the evidence of excessive charging is substantial, as pension fund managers have imposed charges of between 25 and 36 per cent of the contribution or a quarter and a third of worker's retirement savings. As a result, the profitability of the companies between 2000 and 2005 was estimated to be over 50 per cent (Gill et al., 2005).

The question of high charges and profits is compounded by the lack of competition and the fact that over time the number of AFPs has been reduced from twelve to six and that the system does not allow for banks or other financial entities to participate in the provision of pensions. The AFPs administrative charges were 89 per cent more expensive than banks or private stockbrokers' charges in 1999 (Valdés, 1999). A 2008, comparative study of administrative charges shows that those affiliated to a Chilean AFPs pay more than their counterparts in other privately administered systems such as Australia and Sweden and that charges for other forms of financial services are much lower (Hyde and Borzutzky, 2016; Tapia and Yermo, 2008). Manuel Riesco, an economist with the National Center for Alternative Development Studies, argues, "The money they collect from salary deductions is more than twice as much as they pay out in pensions. That's a huge surplus they will never give back" (cited in Bonefof, 2016). American firms (Principal Financial Group, Prudential Financial, and MetLife) own three of the six AFPs and regional firms (BTG Pactual from Brazil and Grupo Sura, a Colombian conglomerate) manage two (Svaluto Moreolo, 2017). According to the Fundación Sol, the AFPs profits for 2017 amounted to US\$530 million dollars (No Mas AFPs, 2017).

As mentioned, the system has also led to a massive concentration of capital in the hands of the AFPs. By the end of 2005, the accumulated capital in pension funds

amounted to 59.4 per cent of gross domestic product (GDP) (Mesa-Lago, 2008: 133). It increased to 63.7 per cent of GDP in 2010, and by 2016, the funds controlled by the six AFPs were equal to about 71 per cent of Chile's GDP (Borgen Project, 2016). As Borzutzky and Hyde note, "It is almost as if the military dictatorship gave the AFPs a license to print money and to control a large per cent of Chile's Gross Domestic Product (GDP) (Borzutzky and Hyde, 2015: 7).

Regarding investments and performance, the administrators have ample discretion in the management of their portfolios. Nevertheless, contrary to what the framers of the system argued, more freedom has not translated into more benefits for the affiliates because liberty has not incentivised competition nor *has it* maximised returns to affiliates (Piñera, 1996). In fact, the evidence around net returns – which are a function of investment returns and management charges – suggests that the performance of the AFPs during the first two decades was not very impressive. According to Leiva, "once the commissions and fees are factored in the rate of return is more than halved from what has been reported by the AFPs and conservative pundits" (Leiva, 2016: 7). Leiva argues also that the real rate of return amounts to 5 per cent annually (Leiva, 2016: 7). Studies by Acuña and Kay arrived at similar conclusions and show that investment performance has declined steadily, endangering the well-being of retirees and forcing the state to increase its role. The 2017 Organization for Economic Cooperation and Development (OECD) Pension Report shows great variability in the returns as it estimates that for 2015–2016 the rate of return was of only 1.5 per cent while the previous year it had been of 8.1 per cent (OECD, 2017: 159).

The pension benefits generated by the FF, DC system are insufficient and have had a negative impact on income distribution. Regarding distribution, Reyes and Pino have shown that the retirement Gini Index is higher than the income Gini Index. The authors argue, "the distribution of retirement income is much more unequal than the distribution of active life income for the same cohort [...]. The same can be said for the level of minimum pension guaranteed by the state" (Reyes and Pino, 2005: 1). Considering how unequal Chile is, this is a major issue.

Despite the promises made by its framers, the FF, DC system is responsible for a substantial fiscal burden because of the state's obligation to pay for minimum and welfare pensions. The minimum pension operates when an AFP affiliate has not been able to accumulate savings that are large enough to obtain a pension above the mandated minimum. In practice, by 2008, due to labour market issues, evasion, low level of mandatory contributions, and high administrative charges, only 25 per cent of those with an AFP account were able to generate savings large enough to obtain a pension above the state-designated minimum. Another 25 per cent was unable to generate such assets but had paid enough contributions to qualify for the means-tested government pension. Therefore, around 50 per cent of plan participants failed to meet either condition and were condemned to poverty after retirement, reinforcing and expanding the large income inequities that exist among active workers (Borzutzky and Hyde, 2015: 8). As noted by Arenas de Mesa, the fiscal burden averaged 5.7 per cent of GDP between 1981 and 1998. Pension spending amounted to 42 per cent of all social spending and 27 per cent of the

total government spending. The projected cost was of about 3.2 per cent of GDP (Arenas de Mesa, 2010: 37).

In brief, in 2008, pension reform was needed because about 50 per cent of the population was excluded from the system, and a large portion of those who contributed were not able to save enough to obtain a minimum pension, which forced the state to provide a minimum pension of about US\$200 per month. Moreover, women's pensions were insufficient and lower than men's pensions because women live longer than men; their salaries are on average 18 per cent lower than the salary of their male counterparts; and because child-rearing and other family responsibilities force women to take time off from the job and from contributing to their pensions. The end result is significantly smaller pensions because a smaller amount of money has to be distributed over a longer period of time, which contributes to increasing poverty among the elderly, especially older women (Mesa-Lago, 2008: 60); it is important to note that the wage gap increased between 2002 and 2007. OECD data show that poverty among those over seventy years old stands at 19.3 per cent (OECD, 2015).

Since the transition to democratically elected regimes in 1990, the Concertación coalition administrations only made marginal modifications to the system. The marginal changes were essentially geared to incentivise private savings and liberalise the investments managed by the AFPs. Undoubtedly, policy legacies and the role of the private administrators determined the nature and scope of these limited reforms, but by 2008, the system was in need of major reforms. The next section discusses Bachelet's governance style followed by an analysis of the 2008 Reform.

Michelle Bachelet's First Administration (2006–2010): Governance and the 2018 Pension Reform

As Weeks illustrates, during her first administration President Bachelet developed a consensual approach designed to overcome existing institutional constraints and “to avoid returning to the conflictive past that had ripped Chilean democracy apart in 1973” (Weeks, 2010a: 4). Among those constraints was a 2005 constitutional amendment that had shortened the presidential term from six to four years, and the binomial electoral system that since 1990 has frustrated a large part of the electorate by favouring the political right. Frustration with the system and with the failure of the Concertación – the governing coalition that had been in power since the end of the dictatorship – to resolve major inequities and include critical social actors in its coalition, has resulted in massive street protest and strikes which besieged the administration in 2006, 2007, and 2008. Those protesting included workers demanding labour rights and better wages; indigenous groups demanding environmental protections and land rights; students demanding a better and more equitable educational system; as well as Santiaguinos demanding a better transit system. Many of those protesting were an integral part of the governing coalition, yet after fifteen years in power, their needs had not been met by its policies, evidence of an erosion in the Concertación's power, and ability to aggregate interests. The Concertación, which had been formed to defeat General Pinochet's candidate in the 1989 elections, assumed an anti-Pinochet consensus that had eroded as

Pinochet's power and influence declined. The country's problems required solutions around which a new consensus could not be easily formed (Weeks, 2010a).

To seek and get consensual solutions, Bachelet resorted to the formation of commissions that included a large number of political, social, and religious actors and experts. The work of these commissions would generally conclude with massive reports that thoroughly analysed the issue and provided recommendations. The recommendations, in turn, went to Cabinet members who transformed them into bills geared not necessarily to fully solve the problem, but do what was politically possible, given the need to compromise with opposition. The result was partial change, which made some happy and left others with unmet needs and ready to take to the streets to demand change. As Weeks argues, governing through commissions allowed Bachelet to project an image of inclusiveness, but they also created new problems because some failed to provide solutions, fuelling more resentment and discontent (Weeks, 2010a: 8, 9). While in some cases the commissions turned out to be a double-edged sword due to their unwieldy nature and the gap between the commissions' recommendations and the resulting legislation, yet overall they provided Bachelet with political support by allowing the administration to achieve gradual change in several areas. In the area of pensions, this approach produced a significant, but partial reform that improved pensions for lower income groups and women, but did not affect the rent-seeking behaviour of the pension fund administrators. Nor did this partial reform reduce the burden of the state, which effectively has supported the private pension system and the earnings of their fund owners.

In analysing the success of this reform, it is important to note that this had been a major campaign issue and that Bachelet had promised pension reform. Shortly after her inauguration, Bachelet charged The Marcel Commission with studying the system and proposing reforms. The Commission proposed these reforms in a report presented to President Bachelet in July 2006. The Marcel Commission proposed, among other suggestions, to move towards the universalisation of benefits, augment the pension system's replacement ratio, eliminate old age poverty, and create a system that could sustain these goals over time. On receiving the report, Bachelet created a Ministerial Committee headed by the Labour Minister Andrade. This *committee* was charged with drafting and submitting a pension reform bill to congress. In January 2008, after months of negotiations between the government and the political opposition, the Chilean Congress approved some (but not all) of the most important proposals made by the Marcel Commission. The most important reforms are detailed below.

To supplement the deficiencies of the private system, the 2008 reform guarantees a Basic Solidarity Pension (PBS) to all Chileans over sixty-five years old who had never contributed to the pension system. The PBS was designed to reduce old age poverty by providing a pension to low income workers who are unable to save enough or to save at all in the private system. The basic pension is about US\$160 per month (Gobierno de Chile, 2017). The state also provides a supplementary contribution to those who have insufficient or low-density contributions, to guarantee a pension of about US\$400. This benefit provides pensions to about 60 per cent of those in the lowest income groups (Gobierno de Chile, Comisión Marcel, Informe, 2006–2007). Typically, workers who

have been in and out of the labour market, including temporary and independent workers as well as women, have benefited from this modality. It is estimated that women receive about 60 per cent of the solidarity pensions. The government also provides a Basic Invalidity Pension to those covered by the PBS.

One of the most novel and interesting aspects of the 2008 reform is a provision that supports women's pensions. To compensate for time taken off work due to childbirth and child-rearing, women's pension funds are supplemented by the Chilean State at the rate of eighteen months of contributions per child. The government contribution is based on a minimum salary, and while the monies are not deposited into the account until the woman turns sixty-five, they generate interest from the moment the child is born. Moreover, because women do not use the invalidity and survival pensions as much as men do, the part of the deposit that is not used for these items is deposited directly into the woman's account. As noted in the Marcel Commission Report, the goal was to equalise male and female pensions because as citizens, women are entitled to the same pension benefits as men, and because is the obligation of the state to correct the inequities generated by the market and by socio-economic norms (Gobierno de Chile, Comisión Marcel, Informe, 2006–2007: 118–120).

A major failure of the private system was its inability to integrate independent or self-employed workers. To include these workers in the system, the 2008 legislation established that they would be enrolled in the AFPs through a yearly "bidding system." In practice, the government assembles the independent workers who wish to enrol into "packets," and the AFPs are given the opportunity to offer bids, which specify commissions and other administrative costs. Once an AFP obtains a "packet" of insured, it cannot increase the commissions for at least eighteen months (Gobierno de Chile, Law 20.255, 2008).

The Bachelet administration was also interested in expanding the pension system. To incentivise young workers' contributions, the government offers to subsidise the pensions of those between 18 and 35 years of age with an income that is less than 1.5 times the minimum salary. The law is also designed to encourage additional contributions by middle-income groups through the creation of a system of voluntary savings (Ahorro Previsional Voluntario). The state incentivises savings by granting tax benefits and contributing the equivalent of 15 per cent of the capital accumulated in the savings account. The reform also introduces investment flexibility by allowing the AFPs to expand investments abroad from 30 per cent to 80 per cent within 3 years.

It is clear that the 2008 legislation benefits those in the lower income groups as the new PBS provides pensions to about 1.2 million people. A study shows that

One significant program impact is that respondents living in a poor household with someone age 65+ are more likely than others to have heard of the PBS for the elderly. We find a significant positive impact of the reform among the targeted poor having an older household member where respondents indicate receiving an annual US\$105 from PASIS/PBS transfers. There is little evidence of public benefits crowding-out private transfers. (Berhamn et al., 2011: 12)

The 2008 reform was the most important socio-economic accomplishment of the first Bachelet administration, and it has had positive effects on equity by incentivising the expansion of coverage, creating the PBS, and supporting women's pensions. As Hyde and Borzutzky note,

The most critical impact of the 2008 reform has been the introduction for the first time since 1980 of a social component into the pension system through the addition of the Solidarity Pillar, or state financed pillar which supports the expansion of pensions to lower income groups, young workers and women. Moreover, the incorporation of new workers through a system of bids seems to have led to a reduction in the administrative costs for that group of workers and the strengthening of the voluntary savings component, or third pillar of the system, fostering an increase in voluntary savings. (Hyde and Borzutzky, 2016: 67)

The new benefits cost an additional 0.5% of GDP in the first few years, rising to about 1% of GDP after phase-in by 2025 (Shelton, 2012: 4). Estimates made by the Marcel Commission and by Carmelo Mesa-Lago show a reduction of transition costs because of the 2008 reform.

In conclusion, this reform illustrates the effects and impacts of Bachelet's consensual approach and the Concertación's determination to continue applying the market economic model inherited from the Pinochet regime, while also trying to deal with the most glaring inequities produced by the market. As a result, policy legacies prevailed because the private pension system remained unchanged, but important reforms were made within the context of the existing policies. Because of the democratic nature of the system and the ideology of the governing coalition, the state intervened to reduce the poverty and inequities created by the model while failing to address the reasons for those inequities, due to either political limitations or unwillingness to alter a convenient status quo. Additionally, because the economy was growing at a healthy rate due to the high price of copper and China's demand for Chile's main export, the resources to finance the reform were available and the fiscal policy remained stable.

The Commissions' recommendations were to make the pension insurance market more competitive. The Commission also proposed that the administrative costs be lowered by allowing banks to enter the pension business or by creating a state-managed AFP. The Senate rejected these recommendations. As a result, the reform did not change the AFPs monopoly over the pension system nor did it have an impact on the administrative charges imposed by the AFPs onto its affiliates. Moreover, the reform did not change the commissions charged by the AFPs nor did it force the employers to contribute to their employees' pension system. The new policy did not solve the question of the replacement rate because the charge-structure to the affiliates/members/workers was not touched by the reforms, and contributions were not increased. In fact, what the reform did was to support and encourage the continuation of "rent seeking" behaviour by the AFPs because the state became the default insurer for those who cannot accumulate enough to have a minimum pension (Hyde and Borzutzky, 2016a). As a result, the impact of the business sector in defining the scope and contour of the reform was substantial, generating the foundations for demands for more reforms by the time President Bachelet returned to power in 2014. Additionally, dissatisfaction had for the

first time generated a social movement, the No+AFP movement, which was able to call for large demonstrations against the pension system. As Bachelet returned to power in 2014, the time seemed ripe to implement substantial reforms.

Making Policies in the Second Bachelet Administration (2014–2018): Paralysis and Chaos

The Concertación is often considered the most successful political coalition in Latin America because it held power from 1990 until 2009. However, the defeat of the former President Eduardo Frei and the election of Sebastián Piñera in the 2009 produced a crisis that led to the changing of the coalition's name and program. Before the 2013 presidential and congressional elections, the old Concertación became the Nueva Mayoría (NM).

The NM was also a coalition – even if its leaders did not call it that – of seven centre-left parties, which included the Socialist, and Christian Democratic parties, the Partido por la Democracia (PPD), the Communist Party, and the Radical Party, among others. Since its inception, uncertainty about the nature of the NM's program was the core problem for the coalition members and for the newly re-elected President Bachelet. While the NM leaders could agree on the common goal of supporting Bachelet's presidential bid and succeeded in getting her elected, they could not forge a coherent program of policies nor could they resolve major differences among key coalition members such as the Christian Democratic and the Communist Parties. It is important to note that the coalition survived until the beginning of the 2017 presidential campaign when its members decided to nominate three different presidential candidates: Carolina Goic for the Christian Democratic Party, Alejandro Guillier for the *Fuerza de la Mayoría*, and Beatriz Sanchez for the Frente Amplio.

It is noteworthy that Bachelet's 2013 campaign and electoral success was not premised on the accomplishments of her first administration, or the success of the other Concertación governments, because the NM leaders lacked confidence in the popularity of the old coalition and its past accomplishments. However, the NM leaders could only define a short-term purpose but not a coherent ideology. According to Ignacio Walker, a former NM president, the "Nueva Mayoría is a political and programmatic agreement built to support President Michelle Bachelet's government and its program" (Walker, 2018). Asked why he could not call the NM a coalition, Walker answered that its mission was to support the presidential program that he was not sure if the NM was replacing the Concertación and that he would not be able to provide an assessment about the NM's future until 2018 (El Mercurio, Enero 6 2014). As we now know, the NM barely survived until the beginning of the 2017 presidential campaign and it is now defunct.

The NM was fraught with problems from the very beginning. By the end of 2014, its leaders were trying to figure out how to deal with their lack of unity, their lack of common goals, the fraught relationships with the administration, and their approach to the administration's policies. These fractious relationships endangered the popularity of the government and of the president (Ganora and Labra, 2014). By late 2015, the crisis expanded as large sectors of society once again took to the streets because they felt

excluded from the political process and dissatisfied with the administration's inability to solve their problems. In the words of Alejandro Navarro, the NM parties had failed to incorporate the citizens into the political process and "the most valuable political capital of the Nueva Mayoría is still Bachelet even with a 24% [support]" (Ruiz, 2015).

The intra-coalition conflict resulted from the nature of the organisation and the discontent held by some with the long process of democratic transition and the failure of the Concertación governments to achieve a better distribution of income. Internally, as noted by Walker, "Maybe there was not, during the formation of the Nueva Mayoría (2010–2013) a profound debate over the past, present and future of the center-left." He adds,

What we had in 2013 and 2014 was a politico-electoral avalanche personified by Michelle Bachelet [...] More than a government program [...], it was she, Michelle Bachelet the one who managed to interpret what the electorate and the people wanted. (Walker, 2018: 103)

In this context, Bachelet had to respond to demands for substantial reforms, including the replacement of General Pinochet's 1980 Constitution, as well as demands for changes in the electoral and educational systems, the tax structure, and the pension system. To successfully legislate, Bachelet needed the NM to adhere to a common agenda and joint congressional action, but because the NM leaders could not even acknowledge that they were part of a coalition, they certainly could not function like. Consequently, even though the NM had a partial majority in Congress, the legislative process was lengthy, disjointed, and conflict-ridden.

However, the NM leaders were not the only ones responsible for the chaos. Chaos came also from within the administration and further dramatised by accusations of corrupt behaviour within both Bachelet's cabinet and her family. These problems were exacerbated by the economic slowdown. The main political and economic problems experienced by the administration are analysed below.

Structural Reforms: Success and Cost

The need for structural reforms that would complete the endless transition to democracy has been a recurrent theme in Chilean politics. When and how the transition ended, or if the transition had even ended, has been the subject of constant analysis and discussion. Most of the post-Pinochet administrations had argued that they completed the transition while also telling Chileans that there were many things still to do in the future. Paraphrasing Greg Weeks, we have heard that "the transition is dead, long live the transition" (Weeks, 2010b: Chapter 3). While the slow pace of change could be explained, in the past, by Pinochet's effect on the society, the presence of unelected members of Congress, or the power of the military, those problems had been largely solved by 2014. By 2015, politicians had to confront not only the incomplete transition but also demands for deeper economic and political reforms.

Candidate Bachelet obtained 62.1 per cent of the vote in 2013 because she promised *thorough* reforms during her campaign. However, her power was weakened by the fact that she got fewer votes than any of her predecessors due to the low voter turnout – 42 per

cent – in the second round. In addition, her capacity to govern was undermined by the fact that the NM obtained 50.63 per cent of the vote in the Senate and 47.71 per cent in the Chamber of Deputies (Siavelis, 2016: 59). In practice, Bachelet was unable to hold her “coalition” together. Her inability to pass the promised reforms became a major challenge for an administration that often looked unprepared and unprofessional. In the words of Peter Siavelis,

She has had to build majorities to initiate reform, holding together her potentially fractious Nueva Mayoría coalition, which included parties ranging from the centrist Christian Democrats to the far Left Communists, as well as four deputies from the powerful student movement. Not only there were more parties than during the Concertación years, but the power of the left had increased, making for potentially more opposition from the right. (Siavelis, 2016: 39)

Moreover, attempts to reform (and actual reforms) only deepened the existing divisions. For instance, early in her administration, Bachelet proposed a major educational reform. This immediately produced a coalition crisis due to disagreements about the extent of free education. This was followed by the tax reform that became very unpopular and within a few months, more people disapproved of the tax reform than approved of it. As Georgina Waylen asserts, Bachelet

was elected again in 2013 on a platform that promised ambitious reforms in three major areas: tax, education and the constitution [...] and although the beginning of her second presidency saw some significant reforms being passed, it also faced some serious crises and setbacks by the end of her first year in office. (Waylen, 2016: 1)

Consequently, while Bachelet managed to get Congressional approval for both the educational and tax reforms, the cost associated with the passage and implementation of these reforms prevented her from proposing the much promised constitutional reform and delayed the submission of pension bills to Congress until the last months of the administration.

Corruption

After having used most of her political capital in the passage of the education and tax reforms, a weakened Bachelet had to deal with multiple accusations of corruption by some of her closest aides and family members. At first, she refused to deal with the corruption accusations made against some of her closest political allies. But, by May 2015, she asked for the resignation of the entire Cabinet. In the aftermath of the mass resignation, several ministers were replaced including her two closest associates: the Interior Minister, Rodrigo Peñailillo, and Finance Minister, Alberto Arenas de Mesa. While the accusations against them were not been fully verified, the administration's prestige and popular support were seriously affected (La Tercera, 2015).

The Caso Caval, or *nueragate*, the corruption scandal involving Bachelet's daughter-in-law, had a substantial impact on her popularity and ability to govern. The case involves a US\$10 million loan to Natalia Compagnon, Bachelet's daughter-in-law, from

the Banco de Chile the day after the presidential election. While the loan itself was not illegal, the money was used by Mrs. Compagnon and her associates to buy real estate in an area where the property classification was scheduled to change from rural to urban, producing a major increase in property values. Bachelet's decision to wait almost a year to speak about the case damaged her popularity and her ability to govern (Vargas, 2016). As for the case, in July of 2018, Compagnon was found to have violated tax laws, a decision confirmed by the Supreme Court in October 2018. Compagnon is expected to serve a prison sentence of 541 days and repay about US\$32,000 (Tele13, 2016).

It is also important to note that there have also been accusations of corrupt behaviour on the part of members of Chile Vamos, the right-wing coalition, which have contributed to the discrediting of Chile's entire political class. According to a February 2017 Adimark Poll, only 11 per cent of Chileans approved of the work done by the Senate, and only 9 per cent approved of the work done by the members of Chamber of Deputies. The work of the NM was approved by 17 per cent of Chileans and support for Chile Vamos reached 28 per cent (Adimark, 2017a). By June 2017, approval for the Senate had dropped to 10 per cent while approval for the Chamber of Deputies dropped to 8 per cent; 18 per cent approved of the NM (Adimark, 2017b).

Stagnant Economy

Lastly, a stagnant economy and a declining GDP (lasting until mid-2017) reinforced a sense of inefficiency and damaged the administration's popularity. While Chile's GDP grew at 5.5 per cent in 2012, the rate of growth declined to 4.0 per cent in 2013, 1.8 per cent in 2014, 2.3 per cent in 2015, and 1.7 per cent in 2016 (Knoema, 2018). The sluggish economic performance can be attributed to a variety of international and domestic factors. Internationally, the decline in copper prices linked to the decline in Chinese demand for copper substantially affected economic performance and GDP growth. However, many Chileans perceived the GDP decline because of the administration's poor economic management and the negative impact of the tax reform. In May 2015, Rodrigo Valdés replaced Arenas de Mesa who had structured the tax law. While Valdés was able to improve relations with the business class, economic performance continued to lag as GDP growth for 2017 was only 1.4 per cent (The Economist, 2018). While GDP growth bounced back in the last quarter of 2017, the damage was already done as economic stagnation and lack of confidence in the administration's economic management negatively impinged on the president's popularity.

During her first term, Bachelet's charisma or "*su habilidad para llegar a la gente*," the presence of efficient economic and financial policymakers and a unified coalition capable of making some policy decisions allowed her to not only govern efficiently but also finish her term with an unprecedented amount of popular support. On the other hand, during her second administration, the coalition's inability to function, the corruption cases, and the stagnant economy resulted in a massive decline in popular support. In fact, Bachelet saw her popularity decline to 24 per cent by the end of 2015 and to about 19 per cent by mid-2016. By February 2017 had risen to 23 per cent and by August to about 30 per cent according to Adimark surveys. According to the same survey, the government's

approval rate was only 21 per cent (Adimark, 2017a, 2017b). The very low approval rates further limited Bachelet's room to manoeuvre and her ability to fulfil the expectations of her supporters, including the promised pension reform. The failed attempt to reform the pension system is discussed next.

The Pension System in 2014: The Need for Further Reform

By 2014, 9.7 million Chileans were registered in one of the six AFPs, but only 4.9 million of those were active contributors and the AFPs had provided pensions to 998,457 retirees with an average pension of about US\$400 monthly. Calls for reforming the system increased during the presidential campaign. This was due to the insufficiency of the pensions as reflected in the low replacement ratios; the increased fiscal costs resulting from the 2008 reform' and the predatory behaviour of the AFPs.

Regarding replacement ratios, Borzutzky and Hyde affirm that

Our assessment of income replacement here relies on a range of ratios. Thus, today replacement rates range from 11% to 55% of the wages for men and from 8% to 40% for women. The variability or range is determined by the number of years of active contributions and the consistency – or density of contributions made into the savings account. In practice, a woman who had a full active life and never missed a month of deposit will get a pension equal to 40% of her wages, and a man in the same circumstances will get a pension equal to 55% of his wages. The data also shows that on average men make deposits for about 25 years out of a 45 year working life while women register about 15 years of deposits out of 35 year work life. As a result, the replacement rate for women is a lot smaller. (Hyde and Borzutzky, 2016: 68)

The Pension White Book issued by the Piñera administration estimated that the replacement ratio for over 50 per cent of the retirees was less than 48 per cent and that half of the retirees had pensions that are even lower (Gobierno de Chile, Libro Blanco, n.d.). Moreover, a study done by the Superintendencia de Pensiones showed that for those who retired between January 2012 and May 2013, after having contributed for more than 30 years, the replacement rate was 54 per cent on average (66 per cent for men and 42 per cent for women). Lastly, The Bravo Commission estimated even lower replacement rates: 48 per cent for men and 24 per cent for women (Gobierno de Chile, Presidential Advisory Commission or Comisión Bravo, 2015). By comparison, average replacement rates in OECD countries amount to 65.8 per cent (Jimeno, 2015).

By 2014, fiscal costs were estimated to be US\$1,621 million per year. A sizeable portion of this money was used to subsidise the pensions of women in the poorest 60 per cent of the population (Jimeno, 2014). Thus, as noted above, the expansion of coverage resulting from the 2008 reform was paid by the state. It did nothing to increase the value of the pensions provided by the AFPs and did not reduce the gains or ability to accumulate the AFP's capital. As a result, by 2016, the total savings accumulated in the hands of the pension fund administrators amounted to about 71 per cent of the country's GDP; they had collected US\$766 million in management charges (Hyde and Borzutzky, 2016: 68).

In brief, the failure to increase the value of pensions and the belief that the AFPs were receiving excessive rents generated new demands for pension reform. Much like in the past, Bachelet resorted to the formation of a commission of experts, the Bravo Commission, but the result was not a reform but rather intense infighting both within the governing coalition and between the administration and the political parties of both the left and right.

The Comisión Presidencial de Pensiones or Bravo Commission

Facing popular dissatisfaction with the entire pension system, and especially with the low value of pensions (a survey conducted by the Bravo Commission showed that over 70 per cent of those interviewed did not approve of the current system), Bachelet formed the Pension System Advisory Presidential Commission), known as the Bravo Commission and led by economist David Bravo. Twenty-three national and international experts formed the commission and it received feedback from another seventy-eight experts. The Commission's goal was to solve two interconnected problems: the insufficiency of pensions and the high administrative costs (Gobierno de Chile, Comisión Bravo, 2015).

Commission members worked intensely on the question of replacement rates, concluding that 50 per cent of those who retired between 2007 and 2014, including those who receive the PBS, received monthly benefits of about US\$150, or about 40 per cent of the minimum wage. Additionally, during the same period, female pensions were about half of those received by their male counterparts.

They also agreed that 50 percent of retirees received benefits that, at most, were equal to 34 percent of their average last ten years wages. For those retiring with the supplementary solidarity benefit (APS), the median benefit was \$84.298 for women and \$107.073 for men. (Bertranou, 2016: 7 and 8)

Of the total population employed, 69.3 per cent had contributed to an AFP. However, contribution density was below 50 per cent for the population affiliated to the pension system (Bertranou, 2016: 7 and 8; Mesa-Lago and Bertranou, 2016). The commission members also estimated that,

Pensioners with high contribution densities showed a median replacement rate reaching 46 per cent; while those with low density achieved only 4 percent. There were also significant differences by gender. The median replacement rate for men was 48 percent, while for women it was only 24 percent. The subsidiary role of the state through the tax-financed supplementary pension benefit APS, significantly increased the median RR [replacement rate] to 45 percent for all pensioners; 60 percent for men and 31 percent for women; highlighting the important role of the state. (Bertranou, 2016: 7 and 8)

According to the majority of the commission members, the low replacement ratio resulted from several factors including insufficient contributions, high administrative charges, and the low retirement age, especially for women. Because the employees' contribution amounts to only 10 per cent of the wages and the employer does not

contribute to the pension fund, the commission recommended an increase in the contribution of at least 5 per cent to be paid partly, or totally, by the employer. Regarding retirement age, the Commission estimated that increasing women's retirement age from 60 to 65 could increase their pensions by 40 per cent (Gobierno de Chile, Bravo Commission: 121–123). As a result, it recommended that the retirement age for men and women increase to sixty-seven over a ten-year period. It also recommending providing additional incentives to those who want to work past the retirement age (Gobierno de Chile, Bravo Commission: 4–18).

Because excessive AFP charges are also responsible for the low replacement ratio, the Bravo Commission, much like the 2008 Marcel Commission, recommended the entrance of banks and other financial institutions into the pension fund administration business to incentivise competition and reduce costs. Both commissions also recommended the establishment of a state-owned AFP and of not-for-profit administrators to increase competitiveness and lower costs.

The reaction to some of these recommendations was loud and clear. The creation of a state-owned AFP generated intense opposition from the private operators who argued that it was going to be poorly managed; that it could not generate returns; that the funds were going to be used for political purposes; and that it would require state subsidies. The AFP's managers also opposed the entrance of banks or other financial institutions into the pension business as they could bring undesired competition. Not surprisingly, increasing contributions and postponing the retirement age were the AFP representatives' favourite solutions because they would increase their profits and reduced their responsibility. Most administrators agreed that the 10-per cent contribution had to be increased to 13 or 15 per cent but could not agree if the extra 5 per cent should go to a common fund or to the individual account. To placate public opinion, the administrators proposed that if retirement age was postponed, the AFP would not charge management fees for the years worked beyond the legal minimum.

Because the 1981 law was premised on the notion of individual responsibility and "free market," Chilean employers do not contribute to the retirement of their employees and contribute only 1.26 per cent of the taxable wage to finance the Disability Fund. In fact, according to the International Federation of Pension Fund Administrators, Chilean employers make the lowest contribution to their employees' retirement among all countries with FF, DC system. Employers' contributions range from 2.8 per cent in Bulgaria to 12 per cent in Colombia. Chilean employers fare even better when compared with other OECD countries, because the average contributions in those countries are in the 20 per cent range. It should come as no surprise that both the business community and right-wing analysts argued that increases in the wage tax paid by the employer would have a negative effect on wages and employment (El Mercurio, 2014).

The Commission concluded its work in September 2015 and provided Bachelet with a detailed report of Chile's pension system. While the commissioners could agree on the problems affecting the system, they had different opinions about the potential solutions. According to commission member Fabio Bertranou, there were diverse views regarding the preservation of the status quo. Thus, while Proposal 'A' called for increasing the contributions to augment the individual savings accounts, Proposal 'B' called for a three-

tier mixed system that included a social insurance component. Bertranou notes that proposal A was supported by twelve commissioners and proposal B by eleven commissioners (Bertranou, 2016: 7 and 8).

In brief, even though the commission members disagreed on the nature of the changes needed, they did produce valuable recommendations to strengthen and augment the solidarity component of the program and to strengthen the contributory pillar. They also agreed on measures to increase savings, to increase the retirement age, to reduce risks and benefit uncertainty, to reduce the gender gap, and to increase competition in the AFP market, among others (Gobierno de Chile, Bravo Commission: 22–27).

On receiving the report, President Bachelet promised to create a Ministerial Committee to study the recommendations and draft legislation. However, she delayed forming the committee until March 2016, and it was not until August 2016, in the aftermath of a massive march organised by the No+AFPs movement, that Bachelet spoke about the issue calling for a national pact to reform and improve pensions (Gobierno de Chile, March 2016, Crea comite.). The president said that the promised bill would augment the contribution to 15 per cent of the salary with the additional 5 per cent paid by the employer and deposited into a common fund dedicated to increasing the value of the lowest pensions. Measures to regulate the commissions charged by the AFPs and to strengthen the solidarity pillar were also promised (Cárcamo, 2016). However, the government's plan to introduce a bill to Congress did not materialise because of conflicts about the additional contribution, the retirement age, and the administrative charges, among others. The government explained the delays as resulting from technical issues. It is clear that governmental paralysis intensified demands for more radical reforms emerging from the No+AFPs movement (Cárcamo, 2016).

The No+AFPs Movement

In the complex history of social security and pension reform, we do not often see the formation of a social movement created with the exclusive purpose of obtaining pension reform, which is the goal of the No+AFPs movement.

While the No+AFPs movement has yet to achieve its goals, it might be quite exceptional because of its very specific mission: to replace the FF system for a publicly funded Pay as You Go (PAYG) system financed with contributions from the employers, employees, and the state, and administered by an independent public body similar to Chile's Central Bank. It also proposes replacing the DC system with a defined benefit system that provides "decent pensions" to all Chileans and transferring the monies accumulated in the current savings accounts to their lawful owners. A national referendum to determine the future of the pension system has also been requested (Reyes, 2016).

According to the No+AFPs' founder, Luis Messina, the organisation was created in 2013 as a response to a government report which highlighted the very low value of an average pension. The movement's basic strategy has been to organise massive *protests* in the streets of Santiago and other major cities. The strength of the movement was shown in August 2016 when over 100,000 people gathered in Santiago, while over 50,000

people took to the streets in Concepción. The Santiago march ended with an event, which, according to its organisers, brought about 350,000 people. The Chilean police estimated the number at about 80,000 (Ayala et al., 2016). The main outcome of the mobilisations was to force a public conversation about the low value of the AFPs' pensions and about poverty among the retirees. The administration responded by scheduling a meeting between Luis Mesina and the Ministers of Labor and Finance. However, public disputes between the Ministers of Labor and Finance complicated the process and the proposed reforms had to wait. In response to the lack of progress in this area, the movement called for the formation of popular assemblies (*cabildos*) to discuss and elaborate a new pension system that replaces the AFPs (No+AFP, 2018).

The End of the Bachelet Administration: Much Ado About Nothing [...]

In April 2017, President Bachelet announced a reform bill that would include a 5 per cent increase in the monthly contributions to be paid by the employer. The additional contribution was to be divided in two: 3 per cent was to be deposited in the employee's savings account and 2 per cent was designed to go to a new Common Fund or Collective Savings Insurance (*Seguro de Ahorro Colectivo*) that would increase the lowest pensions. The new fund was to be administered by a public, autonomous entity modelled after the Central Bank. According to the proposed bill, the affiliates would participate in the investment policies and would have a quota of board members in the AFPs, while new regulations would make the administrative charges proportional to the return obtained by the savings accounts. Additionally, the maximum taxable wage would increase from about CLP \$2 million to about \$3 million pesos over a period of eight years. The president concluded by arguing that the proposed reforms would increase current old age pensions by 20 per cent and that future pensions would increase by about 50 per cent (El Mercurio, 2017).

As expected, the proposal was criticised by a variety of economic and political actors. For Andrés Santa Cruz, President of the Association of AFPs, the bill was not designed to increase the pensions because the additional 5 per cent does not go entirely to the individual accounts (El Mercurio, 2017). The AFPs also questioned the bill's constitutionality and threatened to take the issue to the Constitutional Tribunal, while a number of economists argued that the new tax would have a negative effect on both employment and wages. Right-wing politicians such as Hernán Larraín argued that this bill was a symbol of the NM's inability to reach an agreement over the issue (El Mercurio, 2017). Luis Mesina argued that the proposal was insufficient, and left-wing presidential candidate Beatriz Sanchez made a similar statement, both calling for the implementation of a PAYG system (No+AFPs, 2017). It is noteworthy that the bill did not reduce the administrative charges nor introduce any accountability in the AFP's actions.

Ultimately, the administration introduced three separate bills to Congress in August 2017. The bills dealt with the additional 5 per cent; new regulations for the AFPs; and the creation of a state-managed AFP. Congress approved none of them before the end of the

presidential and congressional term, and the Bachelet administration ended without having solved the problem.

Conclusions

This article analyses the history of achievements and failures in the area of pension of reform during Bachelet's first and second administrations, highlighting the role of the Executive branch and Congress; the impact of political ideology; and the role of private actors. The limited pension reform of 2008 very much conforms to our understanding of the role of the state in seizing a political issue to avoid major social problems, which has been emphasised by Malloy and Borzutzky in previous studies of Brazil and Chile. As noted by Alberto Arenas de Mesa in his history of pension reform, during her first administration, Bachelet was both ideologically and practically inclined to pursue the reform and convened a Commission to define its scope, but there is no doubt that the decision to reform had already been made by the President.

The final shape and form of the reform was decided both by the existing policy legacies and the notion of incremental change and expansion of benefits. However, it was not only the Executive and the experts both in the commission and in the government deciding on the terms of the change, but the private sector also played a substantial role. Ewig and Kay note, that when analysing postretrenchment policies, because of the influence of interests groups, "reforms themselves take on 'layering' and 'conversion' forms rather than wholesale change. Furthermore, by utilizing layering and conversion [...] they [the reforms] did so in a manner that cemented, rather than sought to change a fragmented social policy system" (Ewig and Kay, 2011: 88). This influence is clearly described by Arenas de Mesa when he argues that

in the final analysis and despite the multicolored world of the PS [Socialist Party] some advice her [Bachelet] not go against the AFPs because they have become a factual power and going against them would be similar to Allende's nationalization of the copper companies. (Arenas de Mesa, 2010: 53)

The result was an expansion of benefits paid by the state while the AFPs continued accumulating rents from the administrative charges.

In addition, this article argues that to explain policy success and failure it is important to look at the strength of the executive; the cohesion of the governing coalition; and the country's economic performance. Before transferring power to her successor, President Bachelet could claim that she had ended her first presidential term with the highest approval rate of any president since the transition to democracy, that she had kept the Concertación coalition alive and that she had governed in a consensual style. She could also claim that she had obtained from congress the most important pension reform since the end of the dictatorship.

The 2008 reform expanded coverage and benefited lower income groups and women by creating a solidarity pillar to supplement and complement the private pension system; it also created policies designed to improve women's pensions. However, because this reform did nothing to curtail the rent-seeking, predatory behaviour of the private

administrators, and because replacement rates decreased and the real value of pensions remained very low, dissatisfaction with the pensions provided by AFPs and the system they administer continued; demands for further reform increased. Thus, this article also provides a detailed analysis of the nature of Chile's pension system and a criticism of its performance, focusing on the excessive profits gained by the pension fund administrators and the insufficient pensions received by the retirees.

As Jennifer Pribble affirms, "the Pinochet era pension system had created a legacy of large coverage gaps and by the early 2000s it had become increasingly clear that the state would be forced to step in to fill those holes" (Pribble, 2013: 175). In this context, the 2008 reform resulted from a variety of factors including electoral competition (Bachelet had promised the reform during the presidential campaign), a legacy of making marginal reforms to the system inherited from the dictatorship, the existence of a stable political coalition, and strong economic performance. Additionally, the ideology and strength of the governing coalition facilitated the passage of the legislation, and the successful economic performance secured the monies needed to fund the new benefits. To the extent that the final bill did not touch the structure of the private system or the AFPs' profits, the private administrators or their right-wing allies did not attack the reform.

The need for pension reform was just as pressing during Bachelet's second administration as it had been in the first one; and President Bachelet also formed a commission which provided her with a detailed analysis of the problems and potential solutions. It would have been logical to predict that the outcome of this attempt would have been another limited reform that included even more responsibilities for the state because the ideology of the coalition that had supported Bachelet had veered further to the left. Additionally, the social demands for reform were stronger than in the early 2000s, and there was now a social movement demanding reform.

What changed between the first and the second administration that can help us understand the failure to achieve the desired reform in 2017? First, the internal dynamics of the NM, the governing coalition, were very different from the Concertación's internal dynamics; and it is clear that the NM's lack of cohesion endangered the legislative capacity of the administration. Second, the economic performance of the country was worse than it had been in the first administration; and with diminished rates of economic growth, the capacity to reform declined, and the level of societal conflict increased. Third, the poor economic performance and the lack of political and administrative cohesion affected Bachelet's popularity; and with declining popular support, she could not generate the consensus needed to govern. Additionally, the administration was plagued by internal disagreement, lack of coordination, changes of high-level personnel, and accusations of corruption. Bachelet's inability to face these charges undermined her governing capacity even further. Here Castiglione's words help us understand the puzzle when she argues that the

strong constitutional powers of Chilean presidents are constrained by institutional and partisan features [...]. that considerably lessen their chances to advance policy change [...] As a result presidents are forced to impose strict discipline within their coalition and to negotiate with at least a segment of the opposition. (Castiglione, 2012: 266)

In the final analysis, the failure to reform lies with the incoherent NM and a president besieged by internal political and economic issues.

Future attempts to reform should include not only the items included in the three bills belatedly introduced to Congress by the Bachelet administration but should also address the excessive rents obtained by the AFP administrators because of their impact on the insufficiency of pensions and the heavy fiscal burden. As noted above, the financial success of the AFPs is illustrated by the fact that by December of 2018 the AFPs controlled the equivalent of 71.5 per cent of GDP. However, the average monthly pension for someone who saved in an AFP for ten to fifteen years is only US\$350 and for women it is about half of this amount. The new Piñera administration is studying a set of parametric reforms and a bill was sent to Congress at the end of 2018.

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Author Biography

Silvia Borzutzky is a teaching professor of political Science and international relations at Carnegie Mellon University' Heinz College of Information Systems and Public Policy. She has written

extensively on social security and human rights policies in Chile, as well as Chilean politics. She is the author, co-author, and co-editor of six books. She is the author of *Human Rights Policies in Chile: The Unfinished Struggle for Truth and Justice* (Palgrave, 2017) and *Vital Connections: Politics, Social Security and Inequality in Chile* (Notre Dame University Press, 2002). She is the co-author of *Rent-Seeking in Pensions* (Palgrave, 2016) and *Michelle Bachelet: Una Mujer Política* (Editorial USACH, 2019). She is also the co-editor of *After Pinochet: The Chilean Road to Capitalism and Democracy* (University Press of Florida, 2006), and *The Bachelet Government: Conflict and Consensus in Post-Pinochet Chile* (University of Florida Press, 2010). She is also the author of over fifty articles dealing with Chilean politics, social security, and social assistance. Borzutzky is a member of the editorial board of several national and international social policy journals and teaches courses in the areas of international relations, comparative politics, social policy, and human rights. She has received numerous Teaching Awards including the Martcia T. Wade Award from the H. John Heinz College of Information Systems and Public Policy in 2012. E-mail: sb6n@andrew.cmu.edu